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Warren buffett recommended these 4 books to learn about investing

A voracious reader, Warren Buffett has had a longstanding practice of endorsing books that he finds riveting, relevant and some that are even humorous. As the CEO of Berkshire Hathaway who has amassed a multi-billion-dollar fortune, it's a gross understatement to say that Buffett knows a thing or two about finance and investing. So when Buffett endorses a book, which is often in Berkshire Hathaway's annual shareholder letters, it shoots up bestseller charts and immediately secures a place on many gift lists. “By far the best book on investing ever written.” -- Warren Buffett Almost 70 years after he read the first edition of this book (in 1950, when he was 19 years old), Buffett still considers it the definitive book on investing. As Buffett writes in the Preface to the Fourth Edition, he believes this book provides the proper framework to help readers make intellectual investing decisions without allowing their emotions from sabotaging that framework. Buffett thinks as highly of the author as he does of the book’s content, noting that Graham influenced his life more than any other man except Buffett’s own father. You can purchase this book on Amazon. “The funniest book ever written about investing, it lightly delivers many truly important messages on the subject.” -- Warren Buffett, 2006 Berkshire Hathaway shareholders’ letter Even though this book was first published in 1940, its anecdotal humor and investing lessons are still relevant for today’s investors. This is not just a book for big money players; it’s also filled with advice for the individual investor. Schwed delivers a heads-up warning for small investors to keep an sharp eye on their fund managers with an admonition to “stop making your own mistakes.” You can purchase this book on Amazon. Warren Buffett endorsed this book in his 2014 Berkshire Hathaway shareholders’ letter and offered these words of caution to investors: “There are a few investment managers, of course, who are very good – though in the short run, it’s difficult to determine whether a great record is due to luck or talent. Most advisors, however, are far better at generating high fees than they are at generating high returns. In truth, their core competence is salesmanship. Rather than listen to their siren songs, investors – large and small – should instead read Jack Bogle’s “The Little Book of Common Sense Investing.” You can purchase this book on Amazon. “Scholars have for too long debated whether Charlie is the reincarnation of Ben Franklin. This book should settle the question.” -- Warren Buffett, 2004 Berkshire Hathaway shareholders’ letter As Warren Buffett’s partner and Berkshire Hathaway’s Vice Chairman, Charles Munger, shares his investing philosophies in this book, in part through talks he’s given. One of his talks, “Psychology of Human Misjudgment,” educates readers about navigating the mental traps that can trip up investors. You can purchase this book on Amazon. “When I see memos from Howard Marks in my mail, they're the first thing I open and read. I always learn something, and that goes double for his book.” Howard Marks is the chairman and co-founder of Oaktree Capital Management. He draws from his own financial experiences through the mistakes he’s made to educate his readers about the same pitfalls. And he does this, in part, through excerpts of some of the same memos that Buffett mentions in his endorsement of this book. You can purchase this book on Amazon. “My friend – and now partner – Jorge Paulo and his team are among the best businessmen in the world. He is a fantastic person and his story should be an inspiration to everybody, as it is for me." -- Warren Buffett For readers who enjoy inspirational finance and investing stories, Correa’s book delivers. She tells the true story of the three Brazilian businessmen whose meteoric rise over the last five decades includes the acquisition of Anheuser-Busch, Burger King and Heinz. And it all started with a newspaper ad placed by Buffett’s friend and partner in Rio de Janiero. You can purchase this book on Amazon. Warren Buffett endorsed this book in his 2003 Berkshire Hathaway shareholders’ letter after acquiring Clayton’s company. After teaching a group of finance students from the University of Tennessee, the students gifted Warren Buffett with a copy of Jim Clayton’s book. Buffett acquired Clayton Homes, a manufactured housing company founded by Clayton, after reading Clayton’s autobiography. A true rags-to-riches story, this book is not just a detailing of Clayton’s own life. It also shares the business and leadership lessons Clayton learned along the way to help other entrepreneurs. You can purchase this book on Amazon. "I sought out Phil Fisher after reading his Common Stocks and Uncommon Profits. When I met him, I was impressed by the man as by his ideas.” -- Warren Buffett Time has not diluted the relevance of Fisher’s book, which was first published in 1958. Buffett supports the value of this book by noting that it is regarded as “gospel” by present-day financiers and investors. Fisher outlines specific evergreen investment techniques in his book, which equips the reader to make intelligent instead of emotional investing decisions. You can purchase this book on Amazon. “Sensational … Tim’s book will forever be the definitive work on what causes financial panics and what must be done to stem them when they occur.” -- Warren Buffett Timothy Geithner, former U.S. Secretary of the Treasury, offers organizations as well as individuals some insight for navigating their financial crises based on his accounts of navigating the country through its 2008 financial crisis. You can purchase this book on Amazon. Legendary investor Warren Buffett is pretty open about his financial advice and recommendations. And because of his massive success, people pay attention. Business Insider went through years of his interviews and shareholder letters and rounded up some of his best book recommendations.Warren Buffett is a hugely successful investor, and his tips for investing are surprisingly…Read moreSome titles from their list include: For more of Buffett's recommendations, check out Business Insider's full post below.9 Books Billionaire Warren Buffett Thinks Everyone Should Read | Business InsiderPhoto by Brenda Clarke. Two Cents is a new blog from Lifehacker all about personal finance. Follow us on Twitter here . This past weekend saw conglomerate Berkshire Hathaway hold its highly anticipated annual shareholder meeting, with tens of thousands of investors attending the event in Omaha, Nebraska. Participants flock to the meeting each year to listen to the company’s Chairman and CEO Warren Buffett and Vice Chairman Charlie Munger dispense their views on the company, the stock market and life.This year was no different with Buffett (also known as the Oracle of Omaha) and Munger detailing some of their mistakes, as well as some of the investments that investors should be extremely wary of.Here are two major investments that should be approached with extreme caution, according to Buffett.Days after the annual meeting, CNBC asked Buffett if he was purchasing Uber, a ride-sharing company and one of the year’s most anticipated initial public offerings (IPOs). While Buffett didn’t address the merits of investing in Uber itself, he’s no fan of buying IPOs, because of the skewed incentives for Wall Street to peddle IPO stock regardless of its quality.“In 54 years, I don’t think Berkshire has ever bought a new issue,” Buffett told CNBC. “The idea of saying the best place in the world I could put my money is something where all the selling incentives are there, commissions are higher, the animal spirits are rising, that that’s going to (be) better than 1,000 other things I could buy where there is no similar enthusiasm … just doesn’t make any sense.”That’s an important warning for investors who are considering investing in IPOs. While some IPOs have done well, the incentive system is set up for Wall Street banks to generate a lot of excitement so that they can sell the new stock to the public. The recent poor debut of Lyft, which held a number of surprises for investors, should also be a warning in this regard.Instead, Buffett suggests looking at the wide range of other stocks already available on the market that aren’t necessarily being hyped by the Wall Street money machine.Finally, while it’s true that Buffett considered investing billions in Uber last year, he was considering a more complex deal than what would be available to individual investors. Buffett had proposed a deal that protected his investment if the company faltered, while giving him a potential gain if the company did well in the future.It’s the kind of “heads I win, tails I don’t lose much” deal that Buffett has long been famous for. For Buffett, Uber was a risky enough bet that he wanted a lot of protection should it decline.Still, Lyft’s poor debut does not bode well for Uber’s IPO, and both companies are losing extraordinary amounts of cash.[READ: How to buy IPO stock]2. Cryptocurrency is ‘probably rat poison squared’Buffett has previously called the well-known cryptocurrency bitcoin “probably rat poison squared,” while Munger has likened trading in digital currencies to “just dementia.” Buffett’s comments this year were no less forgiving.“It’s a gambling device … there’s been a lot of frauds connected with it,” according to Buffett. “There’s been disappearances, so there’s a lot lost on it. Bitcoin hasn’t produced anything. It doesn’t do anything. It just sits there. It’s like a seashell or something, and that is not an investment to me.”For Buffett and other investors, as opposed to speculators, an asset is only an investment if it produces cash flow or has the potential to do so. For example, a profitable business is an investment, but items such as collectibles, gold or currencies can never be an investment.A business may expand and grow its profits, leading investors to push the stock higher. In contrast, a collectible does not generate cash flow, so the only reason for its price to increase is because someone wants to pay more for it. This speculative approach is called “the greater fool theory” because it relies on someone willing to pay more for the item than you did.Of course, Buffett also pointed out that cryptocurrency is not safe from theft, either, with much currency having been stolen or otherwise associated with fraudulent activity.The big lesson from Buffett: Buy true investments, businesses that generate cash and have the potential to grow that cash flow over time — then hold tight.[READ: Should you buy bitcoin?]The one stock that got awayAt the annual meeting, Buffett and Munger are often surprisingly candid about their mistakes, which are more typically errors of omission than commission. The pair takes a “value-based” approach to investing, trying to find a company that’s cheaper than it ought to be or one where the price does not reflect the ability of the company to grow its profits in the future.One they let get away, however: Alphabet, the parent of Google.“We screwed up,” Munger said. While the pair saw how much money insurance company Geico – which is owned by Berkshire Hathaway – was paying to Google to run ads, they didn’t invest in the search engine giant. Alphabet has been a long-term winner on the stock market.And while Berkshire missed Alphabet and had avoided Amazon for many years, the company’s money managers have recently taken a stake in the e-commerce behemoth, according to Buffett. That’s certainly a vote of confidence for investors in Amazon stock.[READ: How you can invest like Warren Buffett]Bottom lineIf there’s a consistent theme to Buffett and Munger’s thinking, it’s this: Do a few smart things and avoid all the dumb things. In that respect, the latest Berkshire meeting in Omaha was no different from the many that came before it.Meanwhile, investors would do well to heed the investing lessons that Buffett and Munger dispense for free: Be careful around IPOs – there’s probably a better deal on the market already. Avoid cryptocurrency. Stick to value investments. Investors could do a lot worse than following Berkshire into some of its investments, even if all of them aren’t home runs. Since taking over Berkshire Hathaway, Buffett has led the stock to greater than 20 percent average annual gains over the past 50 years or so.Learn more: How to buy stocks The best brokers for stocks How to open a Roth IRA “Why not invest your assets in the companies you really like? As Mae West said, ‘Too much of a good thing can be wonderful.’ — Warren Buffett Warren Buffett is considered one of the greatest investors in modern history. He started out as a young financial analyst in the 50s and now has accumulated a fortune worth over $60 billion. When asked for investing advice, Buffett often suggests that investors stick to buying stock in businesses they understand, which is a key principle in his own strategy. The Oracle of Omaha buys what he knows; his portfolio is low in tech and doesn’t include any biotech or internet companies. His top stock holdings are familiar names: American Express, Coca-Cola, Wells Fargo and IBM. Even his private companies are fairly traditional: Heinz, GEICO, Fruit of the Loom and others. Related: 5 Industries That Will Never Get Warren Buffett’s Money This might seem like a rather boring way to play the stock market, but it works: Shares of Berkshire Hathaway have more than doubled in the last five years, which is a reflection of the strength of Berkshire’s shareholder relations and the businesses it has purchased — Burlington Northern, See’s Candies, Dairy Queen, Benjamin Moore, Justin Boots and others. Buffett is more interested in long-term holdings and is infamously resistant to investing in “the next big thing.” He avoided technology stocks in the late 1990s in part because he had no knowledge or experience in that industry. He is attracted to slow-growth, old technology stocks that are long-term investments and can generally withstand economic downturns. Why Investing in What You Know Makes Sense For most of us, it’s easier to understand a business or product we encounter on a regular basis. Investing in what you know allows you to more easily place value on the stock and stay informed on industry trends. If you don’t understand what the company does or how it makes money, how will you be able to manage your investment? Warren Buffett often cites the “circle of competence” concept, which is a way for investors to focus only on operating in the areas they know best. This is the reason Buffett does not invest in biotech and technology — those industries are unfamiliar, change too frequently and have short track records. Straying outside the circle of competence leads an investor into the land of speculation. We all have our own areas of expertise, whether influenced by experience, education or both, and we should lean into that knowledge when choosing investments. You don’t need to be an expert on every company in your industry; you just need the ability to evaluate companies within your circle of competence. For example, an investor who has spent the last 10 years working in a garment factory would have an advantage when analyzing the strengths and weaknesses of a clothing manufacturer or determining the climate of the industry. Related: 7 Unbelievable Ways Warren Buffett Practices Frugality What Do You Know? When it comes to investing in what you know, how do you know what you know? Are you following me here? Take a trip to your local supermarket or shopping center and look for the most popular items. Look through your cabinets and pantry: take note of which products you use regularly. Many of your favorite brands could be made by the same manufacturer, like Proctor and Gamble, General Mills or Sara Lee foods, all of which are traded publicly on the stock market. Also, think about what your kids have been asking for or what they want for their birthdays and holidays. Peter Lynch, the father of the “invest in what you know” mantra, says he got some of his best investing ideas from listening to his wife and kids after they came back from running errands. For example, Lynch bought stock in Hanes after his wife raved about her pair of L’eggs, a new line of pantyhose from the company. That investment ended up making him millions. Related: The 5 People Who Made Warren Buffett The Big Picture Finding companies you know is only the beginning; the circle of competence is only meant to help you stay within your arena of expertise. Once you have generated a list of the companies you understand, the next step should be conducting an analysis of the financials. Don’t worry — you don’t have to be a finance whiz to understand the basics of the stock market. For example, Berkshire Hathaway’s investment philosophy is surprisingly simple: The company should have consistent earning power, good return on equity, capable management and be sensibly priced. Investing is less about the stock price and more about the value of the business — is it a good one? Successful investing is more about learning over time and slowly expanding your circle of competence. For now, stick with what you know and focus on the long term. Anyone can find success in the stock market; you just have to keep it simple. As Buffett has famously said, “You don’t need to be a rocket scientist. Investing is not a game where the guy with the 160 IQ beats the guy with 130 IQ.” And you know what? $60 billion says he’s right. Photo credit: Mark Mathosian

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